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Marching in Step – the Solution?

Those arguing against altering the present exchange parities have recently been pointing to the fact that nations do not advance economically at an even pace. The argument which is now frequently heard runs about as follows: What point is there in running the risk of changing parities seeing that the deeper cause of every foreign exchange disequilibrium lies in the fact that economic development tends to differ from country to country? The answer given by those who put the question in this form is more often than not: "No point at all".

This kind of argument is typical of much that has been put forward during the more recent currency discussion: It is neither completely wrong, nor is it correct. Correct is the observation that fundamental international imbalances—and only these are relevant in this context—stem from variations in the pace at which different countries develop economically. These differences are essentially reflected in costs and prices. But it is wrong to conclude from this that the resulting imbalances could not be removed by altering the exchange parities. On the contrary, changes in parities are in present world conditions the only realistic means of achieving it. Only romantics can still demand that countries in deficit must undergo a deflationary cure.

Nowadays there is indeed only one way of levelling out international disparities once they have occurred and that is by altering exchange parities. But the often quoted "marching in step" is also necessary if new imbalances are to be avoided. What is actually meant by the phrase "marching in step"? In principle it means that costs and prices develop at an even pace in all countries; it means that cost and price relations between various countries remain constant, thus "justifying" the plea for leaving the exchange parities unchanged.

But the rule that international costs and prices must remain in step requires modification. As conditions for growth vary from country to country, differences in the rates of growth will always have to be reckoned with. When parities are straightened out, countries with relatively high rates of growth will also show relatively large increases in imports. Such countries will have to see to it that their costs and prices remain under the average world level in order to avoid lasting imbalances in their foreign trade and payments position.

How is it that world has so far never advanced at an even pace? For one thing, the monetary system has not been able to enforce such a uniform advance on the world; last but not least the ever more perfect international credit system saw to this. Another reason was that the economic policies of many countries were not adjusted to such a uniform advance. True, much has been talked about international coordination, and in some international organisations some promising attempts in this direction have even been made, but they led to nothing. It is therefore reasonable to assume that there is something in the often-expressed suspicion that this failure is due, not so much to lack of ability, but of willingness on the part of those responsible for their countries' economic policies. In other words, each country pursues economic aims which vary from those of all the others.

What must be established first of all is what combination of economic aims is at all acceptable by the large majority of countries. It would almost seem to go without saying that such a multitude of aims will not necessarily contain such strict conceptions of stability as continue to exist in the Federal Republic of Germany. It is only after the highly political problem of defining aims has been solved that an attempt can be made at all to find an answer to the more technical question of how to coordinate international economic policy on a world level.

Hans Jürgen Schmahl